



**Local Conference Call
CPFL Energia S/A
First Quarter 2017 Earnings
May 12, 2017**

Operator:

Good morning and thank you for waiting. Welcome to CPFL ENERGIA'S first quarter 2017 earnings conference call.

Today we have with us **Andre Dorf**, CEO of CPFL Energia, Gustavo Estrella, Chief Financial and Investor Relations Officer, and other company executives.

This conference call is being simultaneously streamed over the Internet, available on the Investors Relations site of CPFL ENERGIA at: www.cpfl.com.br/ri, where the respective presentation can be downloaded.

We inform you that during the company presentation all participants will be on listen-only mode and, soon afterwards, the question and answer session will be held, when more instructions will be given. Should you need assistance during the conference call, please dial *0 to get help from the operator. Note that this conference call is being recorded.

Before proceeding, we would like to clarify that any statement made during this conference call regarding the business prospects of CPFL ENERGIA and its operating and financial projections and goals, are beliefs and assumptions of the Company's management and based on currently available information.

Forward-looking statements are not a guarantee of future performance. They involve risks, uncertainties and assumptions as they refer to future events and depend on circumstances that may or may not occur. Investors must understand that general economic conditions, industry conditions, and other operating factors may affect the future performance of CPFL ENERGIA and lead its results to differ materially from those expressed in such forward-looking statements.

Now we would like to turn the presentation over to Mr. **Andre Dorf**. Mr. **Dorf**, you may proceed.

Andre Dorf:

Thank you. Good morning everyone! Welcome to another earnings conference call. Today, we are addressing the first quarter of 2017.



As usual, we will now have a brief presentation, and later, the whole team here will be available for your questions.

So, I start on slide 3, with the highlights from January to March 2017, where our concession area had a stable load – note here a drop of 0.4 – and further ahead, we have a big drop in the captive market and an expressive growth in the free market. In addition, the contracted demand of high-voltage clients was maintained, remaining practically stable, with a drop of 0.6% during off-peak hours and 0.2% during peak hours, March compared to March last year. As a result, there was a growth of 28% in net operating revenue and of 15% in EBITDA – here net revenue growth was mainly driven by the distribution segment this quarter.

Here we continued investing considerably, almost R\$700 million in the quarter and, later, at the end of our presentation, we will see the Capex projection for the coming years. We closed the quarter with a net debt of 13.8 billion and a leverage of 3.3 times the EBITDA.

There were in this period tariff adjustments for Paulista and for RGE Sul in April, with negative effects experienced by consumers. Therefore, it is good for consumers, and it is worth noticing that there was no negative impact on Portion A... on Portion B, sorry, for CPFL.

Regarding the sale of the company's ownership control, the valuation report of the unified public tender offer is currently being prepared, in the case of CPFL, by the bank Credit Suisse, as approved by minority shareholders in an election.

Recently, we also had an interesting event. We launched a new initiative in the group, the company *Envo, Energia para Você*, which is primarily engaged in providing solutions in distributed solar power generation to residential clients and small commercial and industrial clients. So, this is another interesting focus in the last weeks. Also, in April, we published our 2016 Annual Report, which is available to everyone on the Internet.

Let's go to the next page. Here, we see the distribution of our EBITDA for the quarter, in the segments in which we operate. Starting on the left, this pie chart that shows that of our total of almost 1.2 billion of EBITDA, 52% came from the distribution segment and 44% from the generation segment, here distributed into renewable and conventional, and 4% originated from other businesses, such as trading, services and other businesses that are growing in the company.

On the top right side, the other charts show the evolution in each segment. In the distribution segment, we had a growth of 6%, very much driven by the consolidation of RGE Sul. So, the first quarter of this year already shows consolidated RGE Sul against the same period of last year without this consolidation.



In the conventional generation segment, we achieved an impressive growth, basically due to the contractual price adjustments. In the renewable generation segment, we also had a very significant growth basically due to the start-up of the new capacities and by a seasonal adjustment made in the first quarter of 2017. So, the seasonal adjustment of physical guarantees was different in the quarters, promoting here an EBITDA growth in the first quarter of 2017.

On the bottom left-hand side, there was also relevant growth in the other services and in the trading activity, here mainly due to the gain in margin of the trading company CPFL Brasil itself.

Going to slide 5, on the next page, we address our distribution market. So, starting with the table, we noticed an 18% increase in the sales of our concession areas, but this figure is positively influenced by the consolidation of RGE Sul, which added 2,500 GW/h to sales.

So, by discarding the effects of the consolidation of RGE Sul in order to compare the numbers, we observe that the load in our concession area remained stable at 0.4%. The top right-hand chart shows this, again with an impressive growth in the free market clients and a small drop in the captive market clients.

Sales remained stable at 0.1% and we can see this on the center chart, below, 0.1% where free and captive clients have the same behavior. Our contracted demand remained stable (this is good news), guaranteeing much of the remuneration of this segment within CPFL. With regard to losses, a very important issue here in the group, there was a slight growth from 9.08% in the fourth quarter of 2016 to 9.14% this quarter.

Therefore, loss was discreetly increased, but remains as a focus of attention here within the group. This is greatly due to the change in the market mix, the stronger presence of residential clients (even caused by the drop in industrial clients) and, losses went up somewhat in this residential segment and, also, due to the crisis that lead to an higher number of disconnections, consequently increasing commercial losses in the residential segment.

Note, in the bottom right-hand chart, the behavior of different consumption classes, here still without RGE Sul. So, here we have the same unfortunate news of the previous quarters, which shows that the industrial segment remains falling, even in the first quarter this year. Therefore, this is highlight of the breakdown by consumption class, which unfortunately is negative.

On the next page, page 6, we address delinquency, the behavior of the allowance for doubtful accounts (ADA).



So, in the top chart, we compare the ADA evolution, which is around 0.7% of our gross revenue against a historical average of 0.59%. Well, we notice some stabilization, but at a level slightly above the historical level.

On the bottom left-hand side, we see the bills overdue (independently of the provisions) up to 90 days as a percentage of billing, and here we also notice a stability of approximately 1.20%, therefore, a level much higher than that in the first quarters of 2015 (here in comparison to two years ago). The group's collection efforts continue to be strong; so, we got to around 340,000 disconnections in the quarter, a volume significantly higher than historical ones.

Very well. On page 7, we address the generation segment. Let's now focus on the ADA, on the top left side. Here, it is the ADA for the Southeast and Midwest submarkets that show its price volatility. So, going back to April 2016, it was R\$49.00; then, it went up to R\$200 in October and dropped to R\$120 in January. Now it is R\$300, down from R\$350.00 in April of this year. Therefore, the price volatility here is very big, clearly affected by the hydrological profile we have had in Brazil.

Speaking about hydrology, the two charts below show the hydrology situation, represented here by the level of reservoirs. Firstly, on the left, the interlinked system storage level was at 39% on May 10, well below the historical average of about 70%. But the biggest concern is in the Northeast, as we can see in the chart on the right. The storage capacity of the reservoirs was 21% on May 10, against the historical average of 70%, and a water flow rate in this submarket of around 30% of the long-term average; so, we are significantly below the average and with a big focus of attention in the Northeast submarket.

With reference to our installed capacity, we also noticed on the top right-hand chart an increase of 4% in our installed capacity, represented here by the increase in CPFL Renováveis.

On page 8, we start addressing the results and for this I pass the call over to Gustavo Estrella, the group's CFO.

Gustavo:

Speaking about the results of the first quarter of 2017, here we show the results according to the IFRS, and we also make a comparison here discarding the results of RGE Sul, as it wasn't consolidated yet last year and now, in this first quarter, RGE is fully consolidated in the group's results.

So, here when we look at the variation in net revenue, it is basically explained by the effect of RGE Sul consolidation with 27.7% or R\$1.200 billion above the 2016 revenue, an EBITDA variation of 15.6% or R\$161 million. Without the effect of RGE Sul, an increase of 4.2% or R\$44 million and a net income of -



0.1% or R\$300,000.00 in comparison to RGE Sul and -11.5% or R\$ 27 million lower in 2017 against 2016.

Talking a little about the results per each business segment of the group, there is a variation in the distribution of R\$35 million and the main variation here arises out of the consolidation of RGE Sul, which contributes with R\$117 million. There is also the positive market effect at R\$14 million, which is basically due to the market stability compared to 2016, with a 0.1% variation in 2017, but also with a positive effect of the mix, where we see a positive growth in residential consumption with a margin effect for the group.

Here, there is a variation in the concession financial asset, which we also start to record as from 2017 and was also reclassified in 2016; the restatement of the concession financial asset, which are the assets restated by the IPCA and here this variation of R\$47 million is basically due to a lower level of IPCA in comparison to 2016.

So, here there is a non-cash effect of R\$47 million in the restatement of these assets, and also the variation of the manageable PMSO, basically a reflex of a still rather high transfer of the inflation that was recorded during 2016, an inflation near 10% throughout 2016, but also the maintenance of and the increase in the collection efforts of the group companies.

In the renewable generation segment, there are basically two effects (Andre has already commented about this): the perfect effect is that of the seasonal adjustment, so, there is R\$35 million in 2017 arising out of the seasonal adjustment difference in relation to 2016. This difference tends to be diluted over the year by the monthly seasonal adjustment resulting from the difference year on year. Another variation (here a long-term result effect for the group) is the startup of the wind farm complex sold in the free market, with an increase of R\$32 million in the results of the group in 2017.

In the conventional generation segment, also, the effect is basically a reflex, as there was no effect of an additional capacity; so here it is basically due to the increase of the pass-through of prices and also of the inflation, with a positive effect of R\$41 million in total. From the R\$41 million, R\$24 million is a result of price adjustment.

In trading, there is also a reflex of the positions held by the company in the free market through its trading company; here also a positive effect of margin as well as of volume that brings us an additional amount of R\$25 million in 2017 in relation to 2016.

The variation, the decrease in net income is basically explained by the restatement of the sector's financial asset/liability; that is, we went from a financial asset to a financial liability, with an impact on the result of R\$73 million, and also an effect resulting from the acquisition of RGE Sul with the financial



results due to the debts of RGE in the amount of R\$28 million, and also our mark-to-market, with a purely accounting effect of R\$19 million.

These are basically the main variations in the group's results of 2017 against 2016.

Going now to slide 9, we didn't talk much about debts.

So, we close the first quarter of 2017 with a leverage of 3.3 x in the criteria of measurement of the group's financial covenants, which are the same for all the companies, with a gross debt of R\$13.5 billion.

There is a positive leverage expectation here, that is, we already show some leverage stability at lower levels, and I believe this is really our trend, our expectation of maintaining and reducing the leverage over the next quarters and years.

Regarding costs, we see here a small reduction in the nominal cost of the company's debt, with a high exposure to the CDI. This is the average cost in the last 12 months; therefore, the reduction of Brazil's basic interest rate that we have been already experiencing month to month in this indicator, as it is a moving average of 12 months, this is going to happen over the next months, in the short-term results with a positive effect on the reduction of the group's financial cost.

The increase in real cost here is basically explained by the inflation rate reduction in Brazil, causing the real rates to go up to higher levels.

Now going to page 10, here we talk about an important disclosure we like to make, that is, the topic of the company's liquidity. We closed the cash balance in March 2017 at R\$4.8 billion. Therefore, again, with our strategy of early refinancing for the group's companies, we have a very comfortable liquidity situation and our cash easily covers the maturities of the company for the next 12 months.

Now going to slide 11, we have here, basically, two relevant projects today aiming at the group's growth, the two in the renewable generation segment via CPFL Renováveis. So, the first one is the Pedra Cheirosa wind farm complex, with an expectation to start operations in 2018, which is maintained for 2018, and also the SHP Boa Vista, which is expected to start operating in 2020. These are the two projects for growth that we have today for implementation in the group.

Now, going to slide 12, a brief comment was made by Andre earlier on. So, on May 3, we launched the new company of the group, Envo, a company focused on the sale of energy to the unregulated segment, so, basically to operate in the distributed generation segment mainly for low-voltage, residential, commercial



and small industrial clients. Here again, this is a new business line of the group, which we believe to be very promising, observing here the very strong and important expectation for growth of this line of business in the next years.

Here, in slide 13, we have our Capex projection for the Group up to 2021. This number, these numbers were approved by our Board in the last meeting. So, we see here an expectation for increasing the group Capex in 2017 in relation to 2016. Here, basically, the incorporation of RGE Sul's capex with an increase of almost R\$300 million and also, obviously, an increase in some investments made in the other distribution companies.

We practically maintain this higher level of investment here for the next years, up to 2020 and 2021.

In the generation segment, there are basically the two projects I've already mentioned in the previous slides, the project of the Free Contracting Environment (ACL) of the wind farms, and also our SHP, leading to a concentration of investments in 2017 and 2018.

Well, lastly, let's talk a little about the transaction with State Grid. So, as Andre has already said, we are in the process of having a Public Tender Offer for CPFL Energia, and Credit Suisse has been hired to prepare the valuation report. We are right now preparing and drawing up this valuation report, so that we can carry out the normal arrangements of a PTO in accordance with the CVM.

Andre:

Well, with this we end our presentation session. Once more, I turn the floor to the call coordination so that we can start the Q&A session.

Question and Answer Session

Operator:

Ladies and gentlemen, we will now begin the questions and answers session. To pose a question, please, dial start one. To remove your question from the queue, please press star two.

Once again, to pose a question, please, dial start one.

Once again, to pose a question, please, dial start one.

The question and answer session is now finished. I would like to turn the call back to Mr. Andre Dorf for his closing remarks.



Andre:

I'd like to thank all of you for your participation and say that the company remains very motivated for the developments in the power sector. We have been following several discussions on the development, the next steps of the sector as a whole and they are very encouraging, also with the next steps for CPFL.

The ownership control transaction brings countless possibilities and opportunities and we continue, therefore, with our strategy for the growth and development of the company.

So, once more I thank you all for your participation and our team is at your disposal for any future questions you might have. Have a good day everyone.

Operator:

CPFL Energia's conference call is now finished. Thank you all for listening and have a good day.